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Analysis

Lawmakers debate limits to Michigan film incentives

Incentives have helped build a new Michigan film industry, but lawmakers debate how long the state can afford to subsidize it

Gary Heinlein

Michigan upstaged 28 other states competing for Hollywood's attention when lawmakers and Gov. Jennifer Granholm approved tax refunds as high as 42 percent on production costs for motion pictures shot here.

It certainly got Clint Eastwood's attention. His acclaimed "Gran Torino" was one of the 28 movies produced mostly in Michigan last year, up from three films shot here in 2007.

The euphoria over Michigan's flirtation with cinema stars may not last long, however, amid budget woes as high as \$2 billion and a projection that film-related rebates could sap \$150 million from next year's state tax collections.

Some lawmakers already want to limit the program, which also offers tax rebates up to 25 percent on the costs to build production facilities here and a 50-percent non-refundable tax credit for on-the-job training expenses.

But the Lansing consensus has been that it's more important to help offset our auto industry's decline by getting a chunk of the \$60-billion U.S. film industry.

The idea of the film incentives is to help create a new industry that would diversify the state's economy. The trick, experts contend, will be to figure out when a big enough movie infrastructure has been created in Michigan so the tax credits can be phased out.

Michigan's tax credits are off to an impressive start. Film productions spent more than \$65 million in the communities where they worked during 2008, according to Michigan State University's Center for Economic Analysis.

Another 41 film projects are in the works. Four film and digital production facilities are planned.

And film crews spend liberally during production, adding tens of thousands of dollars a day to the local economy where they're working. An Oakland County inn has booked 10,000 room-nights to movie crews.

The amount the state is investing in movies -- \$48 million for the first nine months of 2008 and an estimated \$100 million this year -- is small compared with the \$50 billion the federal government is pouring into a downsized General Motors.

The MSU experts project that Michigan can look for film spending to climb to \$188 million by 2012, creating 2,922 jobs and having a \$336 million economic impact.

Clearly, the potential is minute when compared with the hundreds of thousands of auto industry jobs here and elsewhere, but the state needs every job it can get right now.

How long to continue the tax breaks is a question that even Louisiana, which got the ball rolling in 2002, is mulling. It faces a

budget problem on par with Michigan's. And the Wisconsin Legislature's budget-writing committee has approved cutting its tax credit in half.

Bayou State tax credits for movie studio builders expired at the start of this year, but Gov. Bobby Jindal wants to continue that state's 25-percent rebate for film production costs two more years. Entrepreneurs benefitting from 200 Louisiana movie film and TV productions are lobbying to make it permanent. The rate is scheduled to drop to 20 percent next year and 15 percent in 2012.

The clamor for scrutinizing Michigan's film tax incentives is small, but persistent. Sen. Nancy Cassis, R-Novich, the chairwoman of the Senate Finance Committee, is among the lawmakers who want to clamp a \$50-million annual limit on the film tax givebacks -- about what the state invested in last year's productions. They would, however, increase by 5 percent the tax credit available to business people wanting to open facilities that would add to Michigan's limited film infrastructure.

"The film credits are being subsidized by taxpayers at an estimated cost of \$150 million in 2010," Cassis said. "According to the Senate Fiscal Agency, the state needs more than 20,000 small businesses, or almost 148,000 taxpayers with an income of \$45,000, just to pay for the credits next year. Who pays the cost of the credits is an issue of balance and fairness."

"We will still have the most generous incentives in the nation," even with the proposed annual limit, adds state Sen. Mickey Switalski, D-Roseville.

East Lansing economist Patrick Anderson says it's costing Michigan \$40,000 to \$50,000 for every film job created.

And home-grown movie maker Michael Moore recently told Film Office Director Janet Lockwood the state seems to be groveling to subsidize billion-dollar movie conglomerates.

But the tax credits and the movie stars they attract to Michigan are politically popular. A Detroit News-WXYZ poll found the tax credits are supported by 70 percent of state residents compared with 21 percent disapproval.

MSU researchers project a 187-percent growth in film production expenditures here based on the experiences of Louisiana and New Mexico, which have lower incentives yet continue to experience growth.

Other critics say state governments usually don't get back as much money as they sink into their film ventures.

Louisiana, for example, expects to collect film-related taxes totaling only a fraction of the \$115 million it granted in rebates in 2007, film office spokeswoman Amber Havens said. Rhode Island's revenue department last year calculated that the state was getting back 28 cents for each dollar given to film companies, a 72-percent negative return.

But New Mexico, which also has a 25-percent production tax credit, collected \$1.50 in local and state taxes for every state tax dollar refunded to film-makers in 2007, according to an Ernst & Young report.

Of course, taxes aren't the whole picture. Most states hang their hats on broad economic benefits, such as the 10,000 room nights in Oakland County.

Louisiana film officials claim the business generates \$6.64 in "economic activity" per tax dollar spent. Its labor statistics bureau says employment in the state's motion picture industry has grown 22 percent a year, producing more than 3,000 direct jobs and supporting nearly 3,000 more at businesses the film spending bolsters.

The Ernst & Young report said the 30 films shot in New Mexico in 2007 led to \$253 million in spending and created 2,200 jobs.

The Mackinac Center for Public Policy, a free-market think tank, counters that estimates of economic benefits are overblown. It suggests that a better strategy would be to lower taxes for all businesses, an approach that Granholm has argued would cost state revenue that would need to be made up elsewhere.

Targeted subsidies such as the film credits essentially take taxes from one company to finance tax breaks for another, Mackinac Center fiscal policy analyst Michael LaFaive testified to the Senate Finance Committee in April.

"That creates an inherent risk of creating no new jobs, but rather just shifting them around," he said.

LaFaive said the expense for running the film program -- Lockwood's salary alone is \$95,000 -- comes from tax money that businesses otherwise could have used to create jobs on their own. And, he added, bureaucrats like Lockwood, a former state lawmaker, "are unlikely to possess special talents when it comes to picking winners and losers in the marketplace."

Bridget Beckman, spokeswoman for the Michigan Economic Development Corporation, countered that the film tax credits are helping diversify the economy and provide jobs for laid-off auto workers and young people. She pointed to a finding in the MSU study that each dollar of film tax credit generated \$1.43 in economic activity in Michigan last year and the ratio is expected to expand as studios and production facilities are built.

"We need to diversify into other industries and these incentives are accelerating the growth of the film industry in a way that wouldn't otherwise occur," Beckman said.

Michigan's movie-making business is at a critical stage right now, Beckman said, and it shouldn't be disrupted by reducing incentives.

Steven Miller, director of the MSU program, said the state's goal should be to develop an industry that becomes sustainable without special tax breaks. That seems to be happening in Louisiana, which now boasts an array of movie studios, as well as lighting, props, trucking and rental firms catering to film makers. It estimates 84 percent of each production's budget was spent in-state last year, compared with 33 percent in 2005.

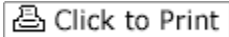
Initially, Michigan will attract mobile production crews, but as the state develops a basic film infrastructure and trained workers, those should become "the glue that keeps them here without incentives," Miller said.

The tax breaks are worthwhile because they appear to be spurring that kind of development, but they can't go on forever. The hope is that fiscal troubles won't prompt policymakers to pull the plug prematurely on them.

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